Whose pay cut? Evidence from Finland during the 1990s.

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Abstract

The aim of this paper is to investigate the number of wage cuts in different segments of labour markets and, in particular, to shed light on individual and employer characteristics and the forms of remuneration that account for wage cuts by using micro-level data. We use Probit models to evaluate the factors that have contributed to the likelihood of wage declines for job stayers during the 1990s in Finland. The models include as explanatory variables individual characteristics (such as age, experience, working hours, region and gender), employer characteristics (size, female share and industry), and the form of remuneration (share of performance pay). The results from employer wage survey micro data reveal for example that the full-time workers had a lower likelihood of wage cuts compared with part-time workers, and wage cuts were more common in small plants. In addition, there is an important transitory component in wage cuts.

The paper contributes to the understanding of the determinants of wage cuts and is relevant to the literature on wage rigidity by explicitly considering the incidence of wage cuts across individuals. The case of Finland during the 1990s is particularly interesting, because of the exceptional macro economic development. There were no overall cuts in the aggregate nominal wages during the great slump according to commonly used earnings indices. This macroeconomic pattern of non-adjustment can be contrasted to the micro-level dynamics of individual wages during this turbulent decade.

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